National Association of Purchasing Management®

Report On Business®

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Purchasing Managers' Index Falls To 46.6%

Export Orders Up: Imports Down

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

November Report

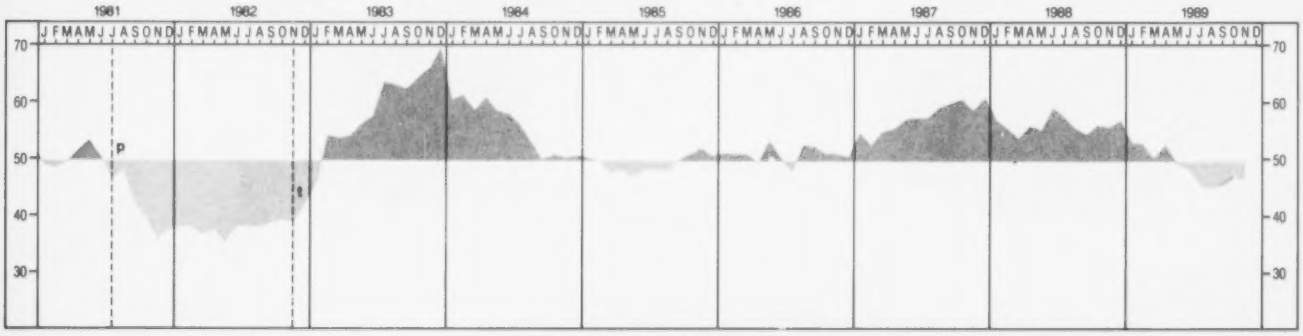
The economy deteriorated in November for the seventh consecutive month at a slightly greater rate than in the previous two months, say the nation's purchasing executives in their latest **Report on Business. Production** declined for the fifth consecutive month at a somewhat lesser rate than last month. **New Orders** declined in November after increasing in October. **Employment** declined for the 10th consecutive month, although at a lesser rate than the last four months.

The trade outlook continued to brighten. **New Export Orders** continued relatively strong. Of the 69.4% of members exporting, 16% reported better Export Orders, down from 19% in October. Only 5% reported worse Export Orders, down from 8% last month. The seasonally unadjusted Export Orders index remained the same as in October, 55.5%. Of the 76.4% of members importing, 8% reported higher **Imports** in November, down from 10% in October, while 14% reported lower Imports, up from 12% last month. The result was a drop in the seasonally unadjusted Imports index to 47.0%, down from 49.0% in October.

Prices declined for the sixth consecutive month, although at a lesser rate than in October. A total of 24 items was reported lower priced, compared to only 13 higher priced. **Inventories** declined again in November, as they have every month in 1989. **Vendor Deliveries** were faster for the seventh consecutive month, mirroring overall greater availability.

The **Report** was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz, "The manufacturing economy registered the seventh consecutive monthly decline in November. Except for relatively strong growth in New Export Orders, signs of weakness were confirmed by all indicators. Nowhere is the growth recession in manufacturing more clearly reflected than in the Vendor Deliveries index, which at 42.5%, is the lowest since May 1982."

PURCHASING MANAGERS' INDEX



Purchasing Managers' Index (PMI)

November '88	55.9	June '89	48.8
December '88	57.3	July '89	46.0
January '89	53.2	August '89	45.2
February '89	53.0	September '89	46.0
March '89	50.4	October '89	47.6
April '89	53.0	November '89	46.6
May '89	49.7		

The **Purchasing Managers' Index (PMI)** fell to 46.6% in November, down from 47.6% in October and reversing a short two month trend of easing declines. This is the seventh consecutive monthly decline in the manufacturing economy. A reading below 50 indicates that the manufacturing economy is generally declining; above 50, that it is generally expanding. Bretz added, "The PMI has averaged 49.0% for the first 11 months of 1989. Past experience indicates that if this average were to continue for the final month, it would be consistent with real GNP growth of about 1.6% for all of 1989 or 2.2% with the additional .6% in this year's GNP, reflecting the rebound in agricultural output from last year's drought. The PMI would have to fall below 44% before indicating a decline in real GNP.

Data and method of presentation

The *Report on Business* is based on data compiled from monthly replies to questions asked of purchasing executives in over 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state; and by Standard Industrial Classification (SIC) category, based on each industry's contribution to Gross National Product (GNP). Twenty-one industries in 50 states are represented on the committee.

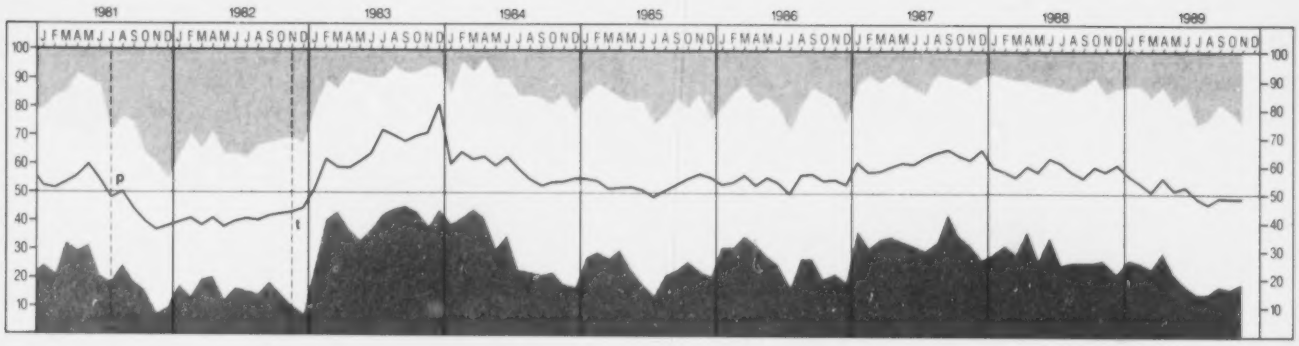
Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (new orders, production, vendor deliveries, inventories, employment and prices), this report shows:

- the percent reporting each response;
- the net difference between the number of responses in the positive economic direction (higher, better — and slower for vendor deliveries) and the negative economic direction (lower, worse — and faster for vendor deliveries);
- the diffusion index.

The charts provide a basis for comparing current data with the historical pattern. The dotted vertical lines on each chart indicate for the period shown the official peak ("p" — July 1981) and trough ("t" — November 1982) of the economy as determined by the National Bureau of Economic Research. The percentage of responses in the positive economic direction are shown in blue, the negative in red, and the same in white. Responses are raw data and are never changed. The diffusion index includes the percent of positive responses, plus one-half of those responding the same (considered positive). The resulting single index number is then seasonally adjusted to allow for the effects of repetitive intra-year variations resulting primarily from normal differences in weather conditions, various institutional arrangements and differences attributable to non-moveable holidays. All seasonal adjustment factors are supplied by the U.S. Department of Commerce and are subject annually to minor changes when conditions warrant them. The Purchasing Managers' Index is a composite index based on the seasonally adjusted diffusion indexes for five of the indicators (new orders, production, vendor deliveries, inventories and employment) with varying weights applied.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change and the scope of change. An index reading above 50% indicates that the economy is generally expanding; below 50% generally declining. The distance from 50% is indicative of the strength of the expansion or decline.

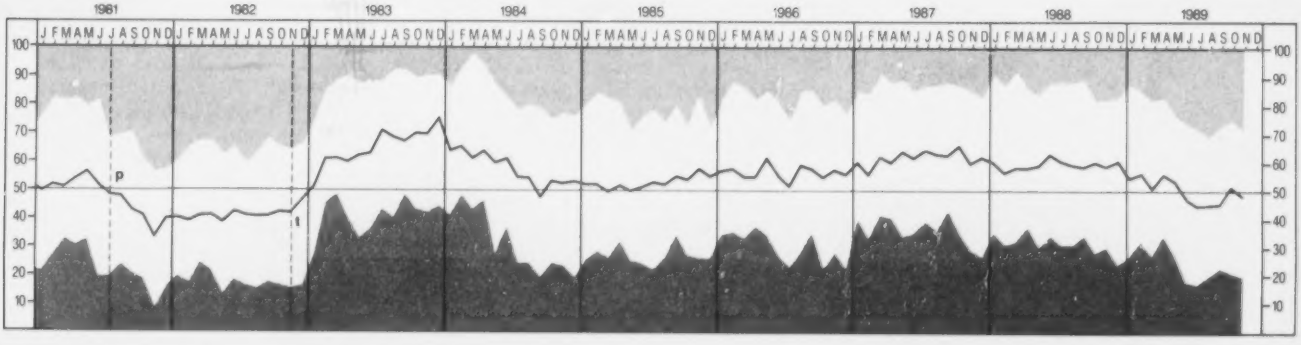
PRODUCTION



Production declined in November for the fifth consecutive month. However, the pace of the decline was not as fast as in October. The Production index rose to 48.6%, up slightly from 48.4% last month. It is at the highest level since June (52.4%).

Production	%Better	%Same	%Worse	Net	Index
November	19	56	25	– 6	48.6
October	17	62	21	– 4	48.4
September	18	64	18	0	48.5
August	15	61	24	– 9	46.5

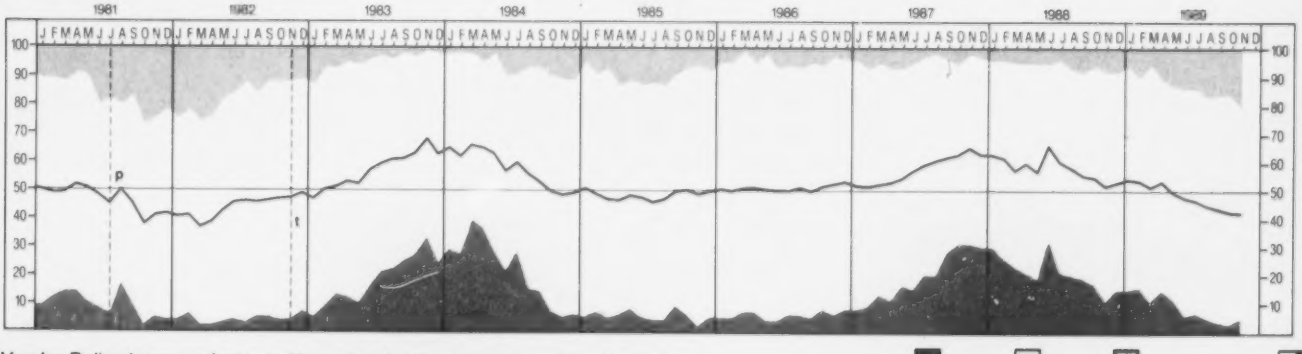
NEW ORDERS



New Orders declined in November for the fifth time in the past six months. The fall in the New Order index to 48.1% was a reversal from last month's sharply higher 51.4% and suggests a rather dismal ending to this year's manufacturing economy.

New Orders	%Better	%Same	%Worse	Net	Index
November	20	52	28	– 8	48.1
October	21	54	25	– 4	51.4
September	23	50	27	– 4	45.4
August	20	49	31	–11	45.1

VENDOR DELIVERIES



Vendor Deliveries were faster in November for the seventh consecutive month, confirming the greater availability of most items against a backdrop of continually falling demand. The Vendor Deliveries index fell slightly to 42.5%, down from 42.7% in October and is the lowest since May 1982 (42.1%). The number of items in short supply dropped to 10, down two from last month.

Vendor Deliveries	%Slower	%Same	%Faster	Net	Index
November	5	75	20	–15	42.5
October	3	81	16	–13	42.7
September	4	80	16	–12	43.8
August	5	78	17	–12	44.9

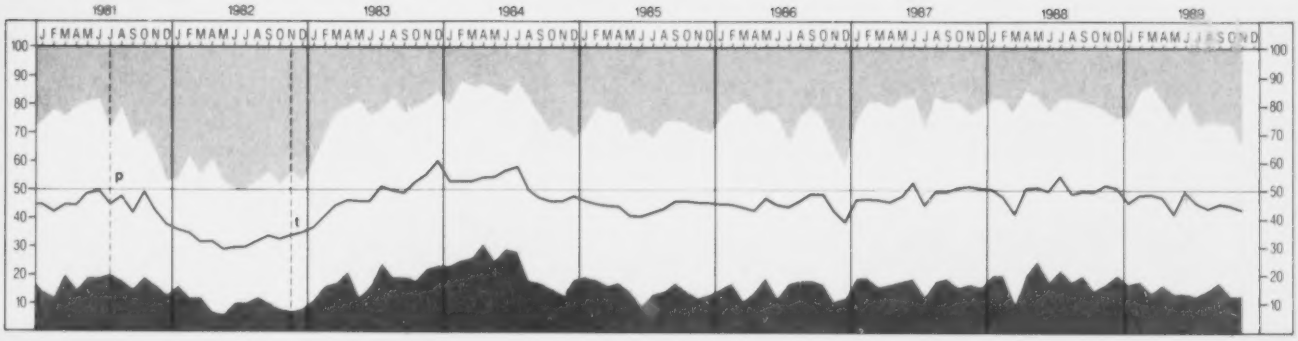
IN SHORT SUPPLY:

Bearings (16th consecutive month; a consequence of anti-dumping suits), **Castings** (12th time in 15 months), **Electric Motors** (4th time in 8 months), **Bleached Paperboard** (17th consecutive month), **Acrylic Acid** (16th time in 17 months; used in manufacturing plastics), **Caustic Soda/Soda Ash** (30th consecutive month; used heavily in paper-making, petroleum refining, and soap-making), **Sodium Chlorate** (6th consecutive month; supply exceeding increasing demand because of switching from chlorine use by paper makers to avoid dioxins; used heavily in paper-making and dyeing), **Titanium Dioxide** (28th consecutive month; lead-free pigment used as a whitener in coatings, paints, paper, and other industrial applications), **Leather, Milk/Milk Powder** (3rd consecutive month; a consequence of increased demand for dairy products, fewer dairy cows, exceptionally higher government export of nonfat dry milk, and very low import quotas; used in food processing).

UP IN PRICE:

Bearings (16th time in 17 months), **Electric Motors** (4th time in 5 months; industry is capacity restrained), **Plywood, Anilins** (used heavily in making medicinal chemicals, dyes, varnishes, resins, perfumes, and vulcanizing rubber), **Benzine** (2nd consecutive month), **Caustic Soda/Soda Ash** (36th consecutive month; primarily as consequence of lower demand for co-produced chlorine by paper makers), **Freon** (used as a refrigerant), **Silicon Wafers** (used in making semiconductors and intergrated circuits), **Polyester** (after being reported lower priced in June for 7th consecutive month), **Fuel Oil** (2nd consecutive month; after being reported down in price in July and September), **Natural Gas** (2nd consecutive month), **Milk/Milk Powder** (2nd consecutive month), **Sugar.**

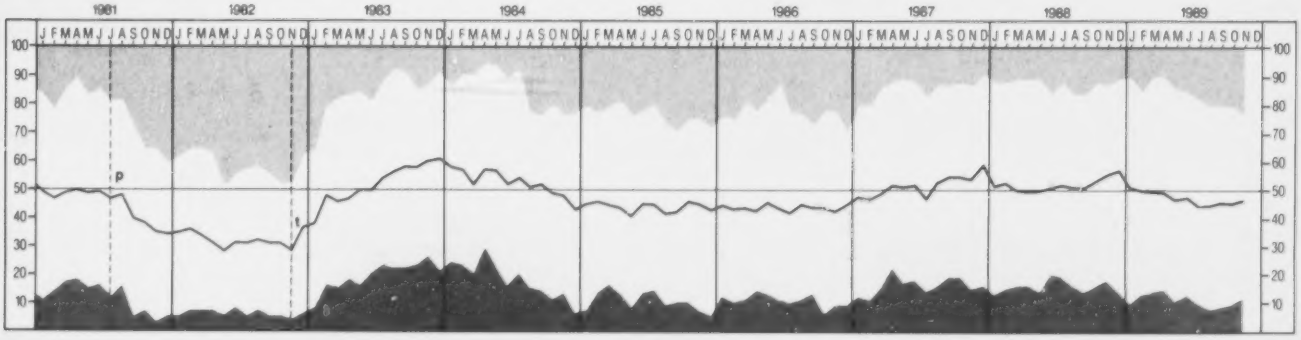
INVENTORIES



Inventories declined in November as they did in every month in 1989. The Inventories index fell to 43.1%, down from 44.7% in October, and the lowest since May (41.9%). Purchasers reported plans to pare inventory further in December, historically one of the lowest inventory months of the year.

Inventories	%Higher	%Same	%Lower	Net	Index
November	13	53	34	−21	43.1
October	13	60	27	−14	44.7
September	18	56	26	− 8	45.1
August	15	59	26	−11	43.3

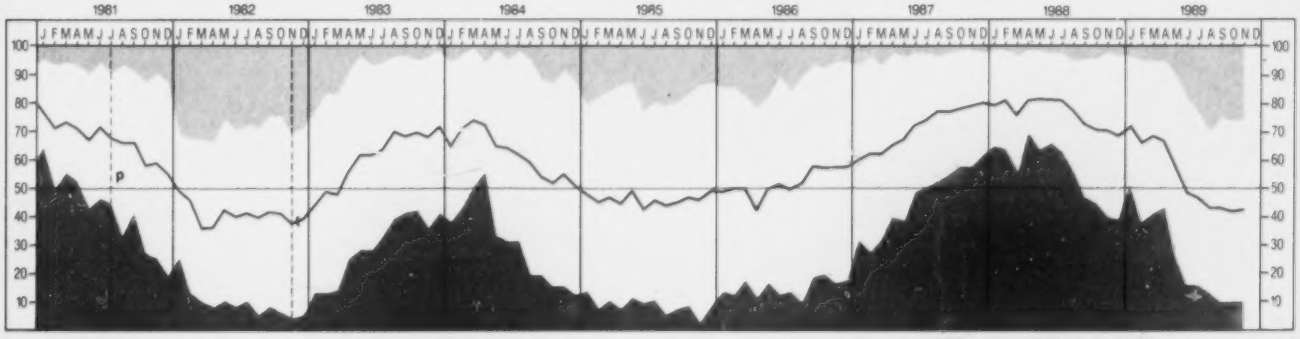
EMPLOYMENT



Employment declined in November for the 10th consecutive month. However, the rate of decline was not as great as in the past four months. The Employment index rose to 46.8%, up a full point from 45.8% in October and the highest since June (47.4%).

Employment	%Higher	%Same	%Lower	Net	Index
November	12	65	23	−11	46.8
October	10	70	20	−10	45.8
September	9	71	20	−11	45.9
August	8	72	20	−12	44.7

COMMODITY PRICES



Prices declined in November for the sixth consecutive month, although at a lesser rate than in October. The Price index rose to 42.7%, up from 41.9% last month. Except for last month, the index at 42.7% is the lowest since June 1985 (42.4%).

Prices	%Higher	%Same	%Lower	Net	Index
November	10	64	26	−16	42.7
October	10	64	26	−16	41.9
September	10	65	25	−15	43.1
August	13	57	30	−17	43.1

DOWN IN PRICE:

Aluminum (8th consecutive month), **Aluminum Products, Copper** (After being reported up in price for 2 consecutive months in October), **Nickel** (6th consecutive month; used heavily in making stainless steel, plating metals and batteries), **Steel** (3rd consecutive month; after being reported up in price in May for 33rd time in 34 months), **Steel Scrap, Ferro Alloys** (2nd time in 4 months; used heavily as a coating for welding rods), **Zinc** (6th time in 7 months; used heavily in metal alloys and as a protective coating for metal), **Printing Paper,** (4th time in 5 months; after being reported up in price in April for 25th time in 28 months), **Chlorine** (3rd time in 8 months; primarily a consequence of lower demand by paper-makers switching to alternatives to avoid dioxins while demand for co-produced caustic soda continues; used heavily in bleaching paper and fabrics, purifying water, and in making synthetic rubber, plastics, and other chemicals), **Ethylene** (7th consecutive month; used heavily in making ethylene oxide, plastic resins, and glycols), **Ethylene Glycol** (used heavily in making anti-freeze, brake fluid, plastic paint, and ink), **Propylene Glycol** (used heavily in making plastic resins, as a non-toxic anti-freeze in foods, a solvent for pharmaceuticals, and substitute for ethylene glycol), **Formaldehyde** (3rd time in 6 months; used heavily in making phenolic resins; and, in fungicides, disinfectants, and other chemical preparations), **Methanol** (10th time in 11 months; used heavily as a solvent and in synthesizing other chemicals), **Phenol** (4th time in 6 months; used heavily in making phenolic resins), **Plastic Resins** (4th consecutive month; after being reported up in price in April for 20th time in 21 months), **Polyethylene Resin** (8th consecutive month; used heavily in making packaging materials and paper coatings), **Styrene** (7th consecutive month; used chiefly in making synthetic rubber, plastic resins, and plastic), **Fiberglass** (used heavily in making glass wool, yarns, textiles, structures, and insulation), **Polyvinyl Chloride (PVC)** (5th consecutive month; used in wire and cable coating, pipe, tubing, textile finishes, and belting), **Polypropylene** (8th time in 10 months; used in making fabrics, carpets, and yarns), **DRAMS** (4th time in 7 months; dynamic electronic memory devices used heavily in computers), **Cocoa** (used in food processing), **Orange Juice.**

BUYING POLICY

Lead times for Capital Expenditures remained virtually unchanged in November. The number of purchasers reporting lead times in the significant six months and longer category was 52%, the same as in October.

Lead times for Production Materials increased slightly. The number of members reporting lead times of 30 days or less fell to 53%, down from 55% in October and 54% in September.

Lead times for Maintenance, Repair and Operating (MRO) Supplies also lengthened to some extent. The number of members reporting lead times of 30 days or less dropped to 85%, down from 89% last month, which was the most since October 1986 (also 89%).

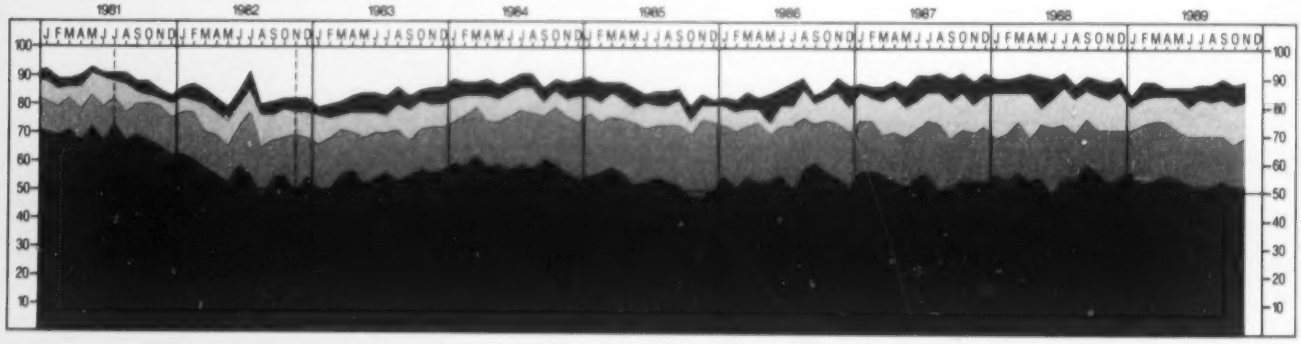
Percent Reporting

Capital Expenditures	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	11	7	13	17	52
October	12	7	14	15	52
September	10	7	13	16	54
August	12	6	12	18	52

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	18	35	28	14	5
October	17	38	28	14	3
September	16	38	28	14	4
August	16	39	29	13	3

MRO Supplies	Hand to Mouth	30 Days	60 Days	90 Days	6 Mos. and Longer
November	42	43	12	2	1
October	42	47	10	1	0
September	44	42	11	2	1
August	48	36	13	1	2

CAPITAL EXPENDITURES



Commodity Reports
November 1989

ENERGY — Prepared by the NAPM Energy Committee. Chair, Howard T. Perley, C.P.M., International Paper, Memphis, TN.

PETROLEUM PRODUCTS: Supply and demand for crude oil seem to be reasonably balanced at current world production levels. Prices have stabilized within a fairly narrow range. For the next several months, No. 6 residual fuel oil, No. 2 heating oil, No. 2 diesel oil and motor gasoline should follow their normal seasonal pricing patterns.

NATURAL GAS: The surplus availability of gas from existing wells is rapidly diminishing as evidenced by interruptions and price jumps already experienced this winter. For a long time, surplus gas has kept the spot market price below its true replacement cost. When new wells are drilled, sustained price increases will be inevitable. Expect higher gas prices in 1990.

ELECTRIC POWER: Rates of most electric utilities have become fairly stable as a result of stable fuel prices, and few if any plans for future construction of new power plants. Demand continues to edge upward, and many utilities are concerned about future shortages unless non-utility generators can fill the gap.

COAL: As the Pittston strike continues, prices have stiffened for the first time in many years. Observers disagree on whether they will remain firm or soften again after the strike is over. Continuing overcapacity, however, points to little risk, of further price increases after production resumes.

STEEL — Prepared by the NAPM Steel Buyers Group. Prepared by Patrick C. Conroy, Valmont Industries.

The market has again reminded all of us in the seller, user arena that we shouldn't burn bridges.

After almost a year and one-half of strength, the mills have seen the market go sour, with serious declines beginning in late August, led by sluggish auto sales. The displacement of those automotive tons has upset the hot rolled price, with the market coming down from $20 to $40 per ton this fall, with cold rolled and coated products maintaining but hesitant.

The reports showed that things were changing as the steel survey indicated users were sitting comfortably with 1–2 months inventory still on hand. Overwhelmingly, they expect their next three months of receipts will be less, and 94% said they would be reducing their inventories in the next six months.

In answering the question on whether a shortage of steel products was expected in the next six months, 82% responded no; the strongest response in over two years.

Foreign steel can't be blamed for any of the domestic declines in orders, as responses to the steel survey said foreign prices were slightly above domestic and there was no change in the competitive activity.

Pure plate products seem to be holding up pretty well with strength continuing in the bridge, railroad cars and barge markets, but strip mill products are following the hot rolled path of declines.

Mini-mill bar and angle has remained fairly stable since second quarter price declines, but there are signs that the market could weaken further. Scrap has been tracking down in recent months with the composite Metal Market price hitting a new low for 1989 at under $100.

A surprise price announcement was made by L.T.V., with hot rolled, cold rolled, and coated increases to be effective January 1. Perhaps the logic was that with no demand there would be little resistance other than verbal, and if the mills can just get into the first quarter, the traditional strongest quarter will carry them. There seems little else to support a move in price at this time.

This *REPORT ON BUSINESS* is published monthly by the National Association of Purchasing Management, Inc., 2055 East Centennial Circle, Post Office Box 22160, Tempe, Arizona 85285-2160. Telephone: 602/752-NAPM (752-6276). Telecopier: 602/752-7890. NAPM is the largest purchasing education and research organization in the United States, with close to 30,000 members. The REPORT has been issued by the Association each month since 1931, except for a brief hiatus during World War II.

Note: The next issue of *REPORT ON BUSINESS* will be available January 2, 1990.